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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 26, 2002

COMMONWEALTH OF VIRGINIA, ex rel.

STATE CORPORATION COMMISSION

v.

CASE NO. SEC-2002-00028

MERRILL LYNCH, PIERCE, FENNER &
SMITH, INC.,

Defendant

SETTLEMENT ORDER

The Division of Securities and Retail Franchising ("Division") has advised the State Corporation Commission ("Commission") that the State of New York's Attorney General commenced a proceeding on April 8, 2002, pursuant to Section 354 of the General Business Law of New York (Index No. 02/401522), including submission of the Affidavit of the Chief of Investment Protection Bureau, New York State Department of Law, containing assertions regarding the research practices of Merrill Lynch Pierce, Fenner & Smith, Inc. ("Merrill Lynch").

As a result of that proceeding, fifty states, the District of Columbia and Puerto Rico, through a committee of the North American Securities Administrators Association, Inc. ("NASAA") have negotiated an agreement ("State Agreement"), a copy of which is attached. In resolution of the matters arising from the allegations made by the state of New York, Merrill Lynch recognizes that the Commission is a unique regulatory entity and

is acting as a court of record in this proceeding. The Division has recommended to the Commission that this case be settled in accordance with the terms of the State Agreement pursuant to authority granted in § 12.1-15 of the Code of Virginia.

NOW THEREFORE, IT IS ORDERED THAT:

1. Pursuant to the authority granted the Commission in § 12.1-15, the offer of settlement set forth in the State Agreement is accepted subject to the provisions of this order.

2. Merrill Lynch shall forward the amount designated in the State Agreement to the Comptroller of the Commission who shall receive such funds to be designated as the Virginia Investor Education Fund. The amount received shall be deposited in the said fund and shall be expended at the direction of the Commission to enhance the securities education program. The program shall enhance the Division's programs that provide information about investor's rights, fraudulent activities and any other investor education as the Commission deems necessary and appropriate in the public interest pursuant to the Virginia Securities Act, § 13.1-501 et seq. of the Code of Virginia.

3. Any unexpended or unobligated funds from this education program fund shall be transferred to the General Fund of the Commonwealth.

4. Merrill Lynch shall comply fully with the terms of the State Agreement, which compliance shall be enforced by this

Commission and governed by the laws of the Commonwealth of Virginia.

5. The entry of this order does not constitute a waiver by Merrill Lynch of any jurisdictional defenses except as expressly provided in the State Agreement.

6. If Merrill Lynch complies fully with the terms of the State Agreement, the State Agreement shall constitute a final and complete resolution of all matters concerning Merrill Lynch as discussed in the State Agreement.

7. The Commission shall retain jurisdiction in this matter for all purposes, including the institution of a show cause proceeding for Merrill Lynch's failure to comply with the State Agreement.

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Defendant

CONSENT

The Defendant, Merrill Lynch, Pierce, Fenner & Smith, Inc.,
Admits to the jurisdiction of the State Corporation Commission
as to the party and subject matter hereof and hereby consents to
the form, substance and entry of the foregoing Settlement Order.

The Defendant further states that no offer, tender, threat
or promise of any kind whatsoever has been made by the
Commission, or any member, officer, agent, or representative
thereof in consideration of the foregoing Settlement Order.

Date:_____

By:_____

Title:_____

Merrill Lynch, Pierce, Fenner
& Smith, Inc.

As seen and reviewed by:

Andrew Kandel, Esquire
Office of General Counsel
Merrill Lynch, Pierce, Fenner & Smith, Inc.